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ABSTRACT

A report sponsored by the National Association of State Boards of Education examines the equity and adequacy of school finance at the state level. The quality of education is still largely determined by where a child lives. Since 1989, more than a dozen school systems have been ruled unconstitutional by state high courts. It has been unclear who should pay and with what taxes. Accounting has been structured around categories, functions, and objects rather than programs and outcomes. The report concludes that the focus should not be on dividing up the financial pie in politically acceptable ways. It should be on a statewide strategic plan for education with provision of basic funding levels to achieve the goals of that plan. Targeting state funds in ways supported by research will most likely lead to achieving the goals. Linking funding with the specific goals of the system brings the state board of education directly into the funding discussion. State boards of education are well-placed to serve as the proponents for quality education and to ensure that funding is stable. State legislators need to think broadly about goals of the system and not just tinker with a funding formula. (Contains 35 references.) (RKJ)

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Financing Student Success:

Beyond Equity and Adequacy

Report of the NASBE Study Group on Funding Education in the 21st Century

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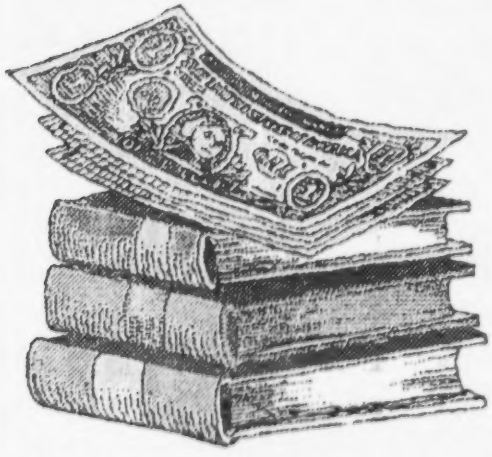

Report of the NASBE Study Group on
Funding Education in the 21st Century

October 1997

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PREFACE

For the last quarter-century, state-level discussions about school finance have focused on two questions: (1) equity—do all students receive an equitable share of the state's educational resources? and (2) adequacy—what is the basic education program that a state must provide for all students? Many states are still struggling with the issue of how to provide schools with equitable and adequate sources of funding. More than twenty-five years after the first battles over the equity and adequacy of state school finance systems, solutions remain as elusive as ever. Wide disparities between rich and poor school districts persist, and the quality of a child's education is still largely determined by where that child lives.

Since the early 1970s, more than thirty state supreme court decisions have been issued in school finance cases. Since 1989, while six state finance systems have been ruled constitutional by state high courts, more than a dozen have been ruled unconstitutional. Just in 1997 alone, courts in four states have found their state's school finance systems unconstitutional or the states' proposed remedy deficient.

In addition to court orders to improve school finance equity, public pressure to reduce property and other taxes have revived the question "who should pay for education and with what taxes?" Questions about which level of government federal, state, and/or local should pay what portion of the education budget remain unresolved. In addition, the debate over which tax revenues should be used to fund schools is a constant source of tension among lawmakers, educators, the public, business, leaders, tax groups and others. Currently, state and local contributions to education are about equal, with most state revenue generated from sales, income and some smaller taxes, and the majority (98 percent) of local education dollars obtained from property taxes. And, pressures on the public purse from welfare and corrections budgets have decreased education funding in the 1990s (Gold, 1995).

For several years, state boards of education have identified school finance as one of the key facing state policymakers. Through NASBE membership surveys, state board members have consistently identified school finance as a high priority issue in their states, as well as an issue that NASBE members wish to study. This may be because of the seeming intractability of school finance issues. Very few states have been able to develop a resolution to the equity issues that are presented in the initial lawsuits in a state. This may also be because while the remedies for lawsuits are often proposed by state legisla-

tures and governors, state boards of education are often named in the school finance lawsuits.

Regardless of their specific budget authority, state boards have an important leadership role in school funding decisions. State boards of education set the standards for education in their respective states and thus should should be expected to be part of discussions about how education funds are distributed. Boards are well-placed to serve as the proponents for quality education, first setting the standards for a quality education, then setting criteria against which any education funding proposal should be evaluated. State boards should also participate in the dialogue on revenue sources to ensure that the sources of funding proposed are stable. Finally, as lay leaders, state boards of education are critical in convening and working with other state education policymakers the governors, legislatures and chief state school officers in order to find solutions to the long-standing problems of the adequate and equitable provision of resources to schools. State boards are the key to assuring that school finance issues transcend state and local policies.

For over twenty-five years, state courts and legislatures have struggled with equity lawsuits and equalization formulas that have had minimal impact on closing the disparities in student achievement between rich districts and poor districts. At the same time, school funding has rarely been discussed in light of the education reform movement. This question, how to use school finance as a tool for improving student achievement, quickly became the heart of the discussions held by ***NASBE's 1996-97 Study Group on Funding Education in the 21st Century***.

Study group members met for eighteen months to hear from experts in the field of school finance, discuss and reflect on the research available, and learn from their state experiences. This report summarizes their findings and recommendations to state boards of education about how to use school finance as a tool for improving academic achievement.

CHAPTER I.
STUDY GROUP FINDINGS

Finding 1: State school finance policies and efforts to improve student performance have been dealt with as separate, discrete policy questions. Hence, funding decisions are seldom made based on the educational needs of students.

State Boards of Education are constitutionally or statutorily responsible for setting education policy in the states. Yet, most Boards either lack budget authority or are not proactively engaged in discussions about how to finance their state's education system. The budgetary authority for education resides, for the most part, with the state legislatures and the governors. This fragmentation of education governance at the state level is one of the main factors contributing to a disjointed approach to education funding. This approach has resulted in numerous court cases, and on a school finance system that is not focused on meeting the educational needs of students.

Throughout the 1990s, State Boards of Education have actively been engaged in reforms efforts to raise education standards. However, education finance has seldom been a part of the standards-based reform discussion. Rather, governors and state legislatures have focused their school finance reform efforts on developing funding formulas based for the most part on distributing whatever resources might be available for education, not on whether monies are aligned to the educational objectives for the state. Furthermore, governors and legislatures are pressed to make decisions to allocate state dollars based on the needs and demands of the many constituencies within their states. These pressures are bound to increase as a consequence of reduced federal financing for a wide array of health and social programs. State Boards of Education need to work closely with governors and state legislatures to ensure that decisions on school finance are based on the educational goals and objectives of their states.

Finding 2: Equity is necessary, but not sufficient, to eliminate gaps in performance between students in wealthy and poor districts.

Historically, discussions about school finance have dwelt on equity that is, the extent to which the per pupil allocations are the same among districts in a given state. Because schools in most states are principally funded through property taxes, per pupil expenditures have varied widely among school dis-

tricts, based on differences in districts' property wealth. Policymakers, families, and the courts have reasoned that if the same amount of money were spent on students across districts, the disparities among districts in their performance would diminish. Numerous court decisions and state funding proposals over the past twenty-five years have sought to equalize the per pupil spending among districts.

Yet, while spending an equal amount of money on students across districts may intuitively make sense in terms of achieving more equitable school experiences and student outcomes, researchers have also undertaken studies to determine whether there is a connection between the amount of money spent in a district and student achievement. The results of several studies lead to the conclusion that the amount of money available to purchase resources such as experienced teachers, curriculum materials, and better facilities does impact student achievement. Given the wide disparities in funding and student achievement among districts, it is clear that something approaching funding parity is necessary to "level the playing field."[1]

Indeed, many researchers, economists, and children's advocates argue that true "adequacy may mean more funding than what equity prescribes" (Goering, 1993). That is, schools in very low income communities will need more resources in terms of educational and social services—not just equal resources—in order to close the performance gap (Odden, 1994).

However, comprehensive evaluation of research studies on the connection between funding and student performance also suggest that how money is spent is as important or more important to enhancing student achievement than the absolute level of funding. That is, in instances where schools received the same amount of money, student achievement still varied. Furthermore, although some districts spend disproportionately high amounts of money per pupil student achievement remains low, and vice versa. Hence, the Study Group found that equity is necessary, but not sufficient, to eliminate gaps in performance between students in wealthy and poor districts, since large numbers of at-risk students and inefficient or wasteful spending practices may significantly complicate the picture.

Finding 3: Money enhances student outcomes when it is targeted to build the capacity of schools and districts to help students achieve.

There is a growing body of research indicating that increases in public

[1] Even in some cases where the courts have upheld the constitutionality of a state funding system, judges have chastised policymakers for allowing wide disparities in per pupil funding, but maintained that it is up to legislatures, not the courts, to fix the problem.

education spending have had a positive impact on academic achievement when the spending increases are targeted to specific policies and programs designed to improve the capacity of students and schools to meet high educational standards.

The *Education Commission of the States (ECS)* has focused much of its work over the last two years on the issue of investing in student performance and achievement. Their recent report, *The ABCs of Investing in Student Performance* (1996), reviews much of the available research on reforms to see what evidence exists to help policymakers make better decisions about spending educational dollars. They found a substantial body of research producing compelling and consistent evidence that student performance is improved by the following:

- Laying a strong foundation before a child enters school through early childhood programs;
- Focusing on essential skills, especially reading, in the early grades;
- Expecting all students to take a challenging curriculum and advanced courses;
- Building teachers' knowledge and skills; and
- Creating a school environment conducive to successful teaching and learning, including smaller schools and classes.

Even researchers who have argued that "there is no strong or systematic relationship between school expenditures and student performance" have said that this conclusion is based on the assumption that schools will continue to use resources in the ways they have typically used them in the past (Hanushek, 1989). They observe that money is not used well within the current organization of schools or the current incentive systems, but could be put to better use if incentives were dependent on performance.

Other school finance experts have reached similar conclusions. Thus, the real resource challenge of the future is "that the education system must figure out how to use its money better dramatically increase its productivity...." (Odden, 1996). If new education funds are spent in the same way as current education revenues, student performance is unlikely to increase.[2]

[2] Appendix A provides a summary of research findings on education funding in the last 30 years and its impact on student achievement and schools.

Finding 4: Defining the mission, goals, and objectives of public education is key to addressing the adequacy of the financial investments needed to promote higher student achievement.

"Adequacy" in School Finance Cases

Kentucky In the 1989 case, the judge included in his decision, and the state Supreme Court concurred, seven student competencies that should be the result of an "efficient school," thus linking school finance reform to curriculum.

Alabama In 1993, a judge ruled that the state constitutional requirement of a "liberal system of public schools" should include opportunities to obtain five specific skills.

Massachusetts While the judge in the 1994 ruling did not declare the entire system of education unconstitutional, he did specify seven capabilities that an educated child must possess.

Ohio Included in a 1994 ruling were eight outcome statements that detailed the meaning of "adequate educational opportunities."

Wyoming In a 1995 ruling, the court ordered the legislature, to define, design and provide funds for a "basket of educational goods and services," guaranteeing each student in the state "a complete, proper, quality education." The state is interpreting the "basket" as high standards in core subjects.

North Carolina In July 1997, the state supreme court ruled that every child in the state has a constitutional right to a sound basic education, and that quality of education not equal opportunity or funding should determine whether that right has been violated. The court went on to specify four curricular outcomes of a sound basic education.

New Jersey This was the first state to tie its remedy to an equity suit directly to the state's curriculum standards. Although the court saw merit in this standards-based solution to the state's long-standing school finance problems, they ruled the plan unconstitutional in May 1997 because it failed to demonstrate that the per pupil allowance the states poorest districts would receive was sufficient to provide the education needed to meet the state's standards.

Recent court decisions have highlighted the importance of defining the educational goals and objectives of public education systems. Since 1989, an increasing number of court decisions on school finance have interpreted state constitutional mandates for education in terms of the "adequacy" rather than just the "equity" of spending, addressing such questions as "what is the basic education program that a state must provide for all students?" These rulings in effect give a curricular meaning to the underpinnings of the finance formula (Pipho, 1994).

During this same period, many states also sought to define the purpose of public education through mission statements, broad educational goals, and, more indirectly, through setting academic standards. As courts increasingly turn to adequacy in addition to equity as the basis of their decisions, the link between what is adequate and the state's mission, goals and standards becomes clear: the goals and standards not only provide direction to students, teachers and administrators, **they become the foundation for adequacy against which the performance of the system is measured**.

While many states have made strides in defining their mission and goals, the Study Group found that very few have taken the next step:

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viewing the effectiveness of their funding system in terms of the state's overall education objectives. The two central questions become: What level of resources will it take to meet the state's objectives? and How can the resources be most effectively targeted to meet the state's objectives?

Finding 5: Current methods of accounting for education expenditures at the district and school levels do not provide policymakers and administrators with the kind of information they need to improve the efficiency and performance of the system.

Fiscal accountability for education dollars has generally taken place at the district level and has been structured around regulatory reporting. That is, the district could assure the state and the public that money intended for textbooks or school buses was indeed used to purchase those items. Several problems with this system have emerged.

- First, **little information about how individual schools spend money has been available**—and it is at the school level, of course, where most resources are actually used. Thus, it has been very difficult for policymakers, administrators, and the public to tell how much money was actually reaching students in the classroom for instruction or to compare spending patterns school-by-school.
- Second, **accounting practices across schools, districts, and states have not been standardized**, which has also made comparability difficult if not impossible.
- Third, **accounting has been structured around categories, functions, and objects rather than programs and outcomes**. Keeping fiscal data separate from program objectives and outcomes has made it difficult to assess the impact or effectiveness of spending—that is, to tell "how much bang for the buck" we are getting from any specific program.

To illustrate these problems using a simplified example, take the case of an administrator trying to ascertain the effectiveness of a remedial reading program. He or she might first have trouble figuring out how much money was spent for this program because the accounting would be structured for different purposes (e.g., books, teacher aides, library resources); second, the outcome data (to what extent did the students improve?) may or may not be readily available; and finally, the administrator would find it difficult to compare this program with similar remedial programs because the data from other

schools simply wouldn't be available or would be accounted for in a different way.

In recent years, some progress has been made in developing standardized accounting reporting models that can be used by individual schools as well as districts and states to provide policymakers and the public with clearer information about how money is actually spent on the "front lines" of the education system. The best known example of this is the In$ite™ Finance Analysis Model now being used in several states and a number of districts. However, the Study Group found that more work is needed for policymakers to truly have the information they need to assess the impact of targeted financial resources. For example, some experts note that In$ite™ still doesn't make the critical link between fiscal accounting and programmatic outcomes.

These five findings and their implications for state education policymakers provide the basis for the Study Group's recommendations to state boards of education, which are included in the following chapter of this report. Each of the recommendations addresses an essential aspect of the Study Group's primary concern: how to link school finance with improving the educational outcomes for all students.

CHAPTER II.

STUDY GROUP RECOMMENDATIONS

Recommendation #1 State Boards of Education Must Clarify and Sustain the Purpose, Mission, Goals, and Objectives of Education in their States.

The first step in linking funding to student achievement is to define the goals of the education system. Most state boards of education have mission statements that reflect the goals and purpose of the state board of education. State departments of education frequently have mission statements focused on the purpose of the department. Although the initiation of standards-based reform resulted in many states revising those statements, the missions and purposes of education in the states are not always clearly defined in those assertions. Besides defining the mission of the Board and the department (which is clearly appropriate), Boards should also clarify the mission of education in the state. There should be a declaration that answers the question, "What is the state trying to accomplish with a public system of education?" Once a Board has clearly defined the purpose of education in the state, it should measure every policy action of the body against the intentions of the Board and the articulated purpose of education. Moreover, the public and the education constituency of the system should be made aware of the correlation between Board actions, the mission of the Board and the purpose of education in the state.

Coming to consensus on educational goals has raised several contentious issues in many states. Two in particular have implications for school finance:

Policymakers must be aware that while higher academic standards should apply to all students, most students currently do not go on to college. Consequently, education must also consider its role in preparing students for today's work force as well as training them to become "life-long learners" so that they can be ready for the jobs of the 21st century.

Policymakers must also acknowledge that many students come to school with social and health needs that must be met for them to succeed academically. Educators must also consider their role in addressing these needs.

After the Board has identified the purpose and goals of education and conveyed that purpose to the public, it must then identify what resources are necessary to meet the stated goals. **The vision cannot be sustained without the resources and the resources will not be forthcoming without a vision.**

Recommendation #2 State Boards of Education should use financial resources to improve student achievement by developing and implementing a strategic plan for targeting financial investments to strategies that improve the capacity of the education system.

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After it has defined its mission and objectives, a fundamental responsibility of each State Board of Education is to ensure that the system has the capacity to meet its objectives. Capacity in this sense is defined as those fundamental resources necessary to achieve a high level of student performance. Elements of capacity include teachers' experience, salaries and professional development opportunities. They could include infrastructure needs, instructional materials, student enrichment opportunities and parent training. There is an extensive body of research about factors related to capacity and there is not a single list that works for every district in every state.

Funding designed to enhance the capacity of schools to achieve state educational objectives can be developed through various mechanisms:

- Funding state initiatives designed to strengthen school capacity on a statewide basis;
- Funding technical assistance or teams of experts deployed to build capacity in schools failing to achieve state educational objectives (as identified by the state accountability system);
- Providing a baseline of financial resources connected to state and local strategic plans; or
- A combination program: a) baseline of financial resources allocated to each district, with expenditures guided by strategic plans, b) provision of state initiatives to build specific elements of capacity, and c) provision of special technical assistance to low-performing schools.

What is important is that solid data be available to answer the Board's questions about what districts and schools need to have their children succeed at high levels. State Boards must have a thorough understanding of the way money is allocated in their system, as well as knowing the strengths and weaknesses of the system. With that information, each Board can develop a strategic plan that broadly defines how funding will be directed to maintain and improve the system. The plan should not only cover how resources can be targeted to build capacity in districts and schools, it should also ensure that the state department of education has sufficient resources to fulfill its responsibilities to provide oversight and assistance. Finally, the Board's strategic finance plan should include an ongoing evaluation process that allows for mid-course adjustments where needed.

Building Capacity for Higher Student Achievement: A Model Approach

As discussed under Finding 2, research has found that money targeted to specific, effective programs can make a difference in improving student performance, and such programs are at the heart of building capacity in schools and districts. The critical focal point of capacity in education is the teaching-learning process. Thus, school and classroom capacity directly impacts the quality of instruction, and a sufficient level is necessary for schools to achieve state educational objectives for student development. A model of school capacity is presented below. Defined through effective schools research, the model consists of characteristics associated with high performing schools and classrooms. These elements of capacity are interdependent and build on one

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another to create a model of schoolwide capacity greater than the sum of its parts. **The Study Group believes strongly that state boards should use this or a similar model to target school finance on building the capacity of schools and districts to help students achieve high levels of academic excellence.**

School and Classroom Capacity

Shared Vision, Goals, and culture. A critical mass of administrators, teachers, parents, and students share a common vision for the school, goals for student development, and belief system that strategically focuses resources on meeting the educational needs of all students. Such schools have a sense of critical judgement on how to allocate resources. Shared vision and goals can potentially be enhanced by a clear and cohesive set of state objectives for education, local strategic planning processes, and increased site management.

Social capital. Effective schools are often described as "communities" characterized by positive social relations. A critical mass of administrators, teachers, parents, and students are networked through supportive and trusting relationships. Individuals in the school community are willing to sacrifice to help others in the school community or to support the common goals of the school. Such schools are capable of drawing on the full range of human resources existing in the school community. Social capital enhances the development of group norms, common school vision and goals, community support for schools, and community teamwork. Conditions potentially facilitating school-wide social capital include frequent communication, common activities, agreement on a core of education related values, and small school size.

New Mexico. The state's Communities in Schools (CIS) initiative originated with a one-year grant in 1991 from the U.S. Department of Labor (DOL), Department of Justice, and national Cities in Schools office. The mission of the initiative (now housed in the Children, Youth, and Families Department) is to enable localities to develop and implement innovative and collaborative services and programs, with an emphasis on at-risk older children and youth. Four sites are currently funded. Each site is governed by a local board with at least half of the membership representing private entities. During 1992 - 1994, the state used a smaller DOL grant, supplemented through a variety of local cost-sharing and interagency agreements, to provide seed money for new CIS communities. The desired outcome of the CIS model is the development of an approach that serves children, the entire family, and the community in a comprehensive manner through the use of such strategies as co-location of services, case management, and the creation of public-private partnerships.

Availability of effective teachers. An effective school must be comprised of a critical mass of effective teachers who have the appropriate knowledge, skills, and attitudes necessary to help all students learn. Teachers must be capable of maximizing learning time, connecting with students, focusing classroom resources on the needs of all students, and engaging in purposeful teaching. Maintaining effective teachers in a school over a sustained period is another

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California. The state has funded a number of professional development initiatives over the years through SB 1882, teacher professional development legislation passed in 1987. One of the most famous programs created through Senate Bill 1882 is the Subject Matter Projects (SMP). The SMPs were modeled after the *Bay Area Writing Project*, and are an effort to expand the number of teachers knowledgeable about curricular initiatives and to increase teacher leadership in the major curricular areas. The SMPs are administered by the University of California, in concurrence with California State University and the Superintendent of Public Instruction.

The SMPs provide: 4-6 week summer institutes in a specific content area, including time to develop instructional and curricular strategies and projects; follow-up support to teachers and districts throughout the academic year, and Saturday workshops and seminars on special projects. There are about 90 SMP sites in the 11 different curricular areas.

important factor. Quality teaching is enhanced by professional development, availability of instructional resources, availability of support services to assist students with special needs, engagement of classroom aides, teacher involvement in a professional community or network of teachers, and in many instances, small class size. A state may sponsor workshops on pedagogy designed to enhance classroom level expertise. Through various policies, formulas, and resource allocations, it may reduce class size or increase the number of people teaching in a building. Reward structures can be established to encourage effective teaching and maintain faculty in schools.

Teachers capable of performing as a professional learning community. Teachers in effective schools are often capable of focusing on student progress as a professional learning community characterized by collaboration, peer feedback about teaching, reflective dialogue and debate about critical issues in education, and shared learning as a group. Professional community helps develop shared vision among faculty and increases the collective capacity of school professionals to address student problems. Conditions facilitating professional community include increased time for group discussion and collaboration, site-based professional development activities, open communication channels, team teaching and planning structures, and a work culture that supports group activity. States can enhance professional community through initiatives establishing teacher networks.

California. SB 1882, cited above, also created Regional Consortia (Teacher Training Networks). Through this program, the state encourages schools to establish regional partnerships of eight to twelve schools, combining their resources to support staff development activities that meet the needs identified by the partnered schools and their teachers. The teacher training networks have been organized around the different grade spans—elementary, middle and secondary—in order to provide professional development which is most appropriate for that group of schools.

SB 1882 also provides funds directly to districts for school-level professional development. About one-third of the districts in the state receive the SB 1882 money, specifically earmarked for schools that are not part of the SMP program.

Effective and sustained leadership. Quality leadership is considered one of the essential elements of a high performing school. Effective leaders can help develop shared direction in a school community. They can give teachers a sense of efficacy and empowerment about their work and the goals of the school. Leaders also perform a critical role in developing a school environment and structures that support desired behavior. Effective princi-

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pals are capable of building a school community with a shared sense of purpose, while buffering teachers from excessive external intrusion through political savvy and effective negotiating skills. District leadership can also impact school priorities and purposes. Both school and district leadership perform critical roles in managing resources and mobilizing professional development activities. In some schools and districts, maintaining effective leadership over a sustained period is critical to developing and maintaining capacity. Effective leadership is enhanced through state leadership academies and other professional development activities.

Physical and structural conditions. A critical baseline of physical resources is necessary for basic school operations. Physical resources serve as conditions for developing other components of school capacity. Resources available to a school beyond a minimum level can impact school capacity and student performance if strategically allocated. Physical resources include funds available for hiring school staff and purchasing other physical resources. Other important physical resources include equipment, technology, instructional supplies and materials, physical decorations and symbols, and facilities and space of sufficient quality. Time is also described as an important physical resource. States can provide physical resources to schools through funding mechanisms and other input related measures. A key issue is how funds and other physical resources are used by schools, which can be influenced by other elements of capacity (i.e., leadership, sense of strategic purpose, etc.).

Two recent studies suggest that instructional investments in making classes smaller can result in improved student achievement.

Tennessee's reduced-class-size program, started in the mid-1980s, increased funding to maintain smaller class sizes. Mosteller (1995) has recently reported that the smaller classes resulted in substantial improvement in early learning and above average overall student achievement levels, both initially and over the long term.

Wenglinsky (1997) found that increased expenditures on instruction and school district administration resulted in smaller teacher-student ratios, which in turn raised average achievement in mathematics in grades 4 and 8, as measured by the National Assessment of Educational Progress (NAEP).

Structural conditions also relate to school capacity. Class size can affect the quality of teaching and learning. School size is described as affecting the capacity of leadership to bring a school community together into meaningful strategic planning. Traditional structures (such as grading or scheduling practices) are often criticized as barriers to effective change and continuous improvement in schools. Organization of a school into traditional departments, grade levels, or along other dimensions can potentially affect school performance. The physical structure of classrooms and schools can also impact performance in particular situations. To address these issues, several states are developing policy measures to address structural issues such as class size.

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Kentucky's Youth Service and Family Resource Centers were established as part of the 1990 *Kentucky Education Reform Act* to remove nonacademic barriers to children's learning. The centers attempt to strengthen family functioning through the provision of resources and support. In low-income school districts (where 20 percent of the student population receives free school meals), the school system operates family resource and youth centers in or near public schools. Funding in 1995-96 was approximately $37 million, which supported over 500 centers serving more than 800 schools (ECS, 1996).

New Jersey implemented the *School-Based Youth Services Program (SBYSP - 1988)* as a statewide effort to place comprehensive services in or near secondary schools. The program's goal is to provide adolescents, especially those at high risk of school failure or dropping out, with opportunities to complete their education, obtain skills that lead to employment or additional education, and lead mentally and physically healthy and drug-free lives. *SBYSP* operates in more than 30 school districts, with at least one site per county.

OTHER SERVICES FOR CHILDREN. Additional resources may be needed in some schools to address the health and social services needs of students and their families. Educators argue that if children come to school hungry, unhealthy, frightened or abused their learning is dramatically and negatively affected. As a result, schools face the dilemma of whether to offer costly supplemental services that respond to children's broader needs or to allow those unmet needs to have a negative impact on learning (ECS, 1994, 1996). States are also grappling with how to tie the financing of education with funding for ancillary services that support education (e.g., health and social services). However, one study found that when dollars outside education were considered, there was nearly three times as much money available to serve the needs of children (ECS, 1994). Study Group members acknowledge that the inclusion of student's social and health needs as part of the education agenda is somewhat controversial. But these obstacles cannot be an excuse for failure in school; they must be recognized and addressed. A comprehensive, systemic approach to capacity building should consider incorporation of these other services.

State Role in Developing School Capacity

The central challenge for a state is to develop an education program designed to achieve its state objectives for education. A state strategy to achieve its objectives may include efforts to build capacity at the district, school, and classroom levels. Through policies, state initiatives, and financial and technical assistance, states can develop conditions that enhance school and classroom capacity as described above. States obviously play a role in distributing financial resources to districts. They can also be involved in "triaging" resources and providing technical assistance to low performing schools and districts. Building district and school capacity is a critical role for states within a reform context that includes a statewide accountability system driven by the state's objectives for education.

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Recommendation #3 State Boards of Education must develop and implement mechanisms linking educational outcomes and fiscal accountability.

A small but growing number of states have implemented a variety of mechanisms to hold teachers, schools and districts accountable for student attainment of outcomes. In addition, states are seeking better ways to hold districts and schools accountable for how they spend educational funds. In recent years, several states have sought to link school funding mechanisms directly to both outcomes and fiscal accountability.

Study group members feel strongly that accountability is key to reform efforts linking school finance with high student achievement. In defining adequacy, states must link funding systems to educational expectations. Thus, if states are able to assure schools are provided adequate resources to meet those expectations, then the accountability burden is on schools. This corresponds with a fundamental shift in the relative control of states and districts over educational funding issues taking place over recent years: As states have assumed more control over how much money districts can spend, districts have been given more flexibility in (and responsibility for) how they spend the money. This shift presents State Boards of Education with a golden opportunity to build an accountability system linking educational performance/achievement with financial accountability.

Kentucky. As part of its comprehensive 1990 *Kentucky Education Reform Act*, the state is providing fiscal rewards to schools based on improvement in student performance. The intent is that such incentives will encourage districts and schools to use resources effectively, efficiently, and to improve student performance, rather than to secure additional funds for having high-cost students, such as those at-risk or needing special education.

South Carolina. The state's accountability system incorporates collective rewards for student outcomes through the *School Incentive Reward Program (SIRP)*, and has more recently added an emphasis on fiscal accountability through its use of a new cost analysis system that ties expenditures to student achievement.

Rhode Island. The state is working on a new school finance plan that incorporates both outcomes and fiscal accountability. Rhode Island lawmakers are considering a proposal to direct more state aid to urban districts in exchange for improved student performance and clear accountability for how schools spend their money.

Study group members suggest that there are two types of accountability that are important in school finance. First, there is ***outcomes*** accountability, where states hold teachers, schools and districts accountable for student performance. Many school finance reformers have argued that the education system needs to employ new and better incentives to spur more productive use of resources. A few states have implemented

Some researchers argue that restructured compensation systems should be part of education's new incentive system. Stressing that incentives must be designed specifically for the education context, they suggest paying educators for performance—individually for what they know and can do through new forms of competency-based pay, and collectively for what they produce in terms of increases in student learning through school-based performance bonuses.

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an outcomes accountability mechanism borrowed from the private sector by using rewards as incentives for schools and teachers to improve student performance. Questions remain as to what types of incentives will work in education and how to incorporate them into the regular education budget.

The second mechanism is ***fiscal*** accountability, whereby states develop systems that hold schools and districts accountable for how they spend their funds, based on achievement of specific goals. Policymakers must understand how schools are spending their resources, based on accurate data. Study Group members have identified several guiding principles in determining the kinds of information that should be collected:

- The data collection system should support policy initiatives and alignment between funding and outcomes. After all, the purpose of a sound financial accountability system is for state and local policymakers and administrators *to study themselves*, to see that their resources are effectively matched with the needs of their students and the priorities of their communities.
- Sufficient data should be collected about program outcomes and expenses to ultimately permit a cost-benefit analysis for each educational program. It is necessary to link expenditures to specific programs and to the specific outcomes each program was designed to enhance in order to understand the true impact of school spending patterns. If, for example, schools

South Carolina's Cost-Analysis System: South Carolina has become the first state in the nation to introduce an innovative new cost analysis system that fundamentally changes the way education finance is analyzed and reported in the state's 1,100 schools and 91 districts. The Finance Analysis Model (FAM), developed by the national accounting firm Coopers & Lybrand L.L.P., replaces a system geared toward regulatory reporting with one focused on clear, complete and useful management and public information. It is designed as a management and planning tool for schools and districts and an accountability tool for South Carolina's taxpayers.

FAM is designed to produce a clearer picture of where education dollars go by organizing expenditures along three dimensions that correspond with the way public education uses money: by function, by program and by grade level. It is being implemented in South Carolina over a three-year period. The functional methodology has been applied to all 91 districts and to the State Department of Education, based on audited data beginning with the 1993-94 fiscal year. In addition, school-level data is now available for the 1995-1996 school year. Following implementation of the model, productivity analyses will be developed for all schools linking education costs with student achievement, to more accurately determine the return taxpayers receive for their investment in education.

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have funneled significant amounts of money to diagnose, monitor, instruct and provide services to special education students, it makes no sense to judge the effectiveness of this spending by whether SAT scores improved for college bound students. Unfortunately school finance reports seldom break down expenditures by programs. Analyzing education spending by programs is as important as tracking expenditures by functions and categories. It is particularly important that this information be available before debate over how financial resources impact student academic achievement is begun.

- The information system should incorporate all types of programs serving children in schools and all funding streams supporting those programs, including the relatively small federal contribution (about 7 percent) and other public and private funding (e.g., departments of health and social services, private sector businesses, and foundations).

- Statewide systems of collecting comparable data are needed to permit district to district and school to school comparisons. However, the spending patterns identified should be interpreted based on individual school and district needs and priorities. Spending patterns are expected to vary based on student demographics, population density, geography, and a wide range of other variables that determine a school or district's needs.

As the move toward "tracking" and analyzing education spending grows, states need to consider setting guidelines for uniform accounting procedures to be followed by all districts and schools. This is essential to ensure that the categories are meaningful to the educational enterprise, taxpayers and public officials and so that observers are able to compare "apples" with "apples" across districts and schools.

Any financial accountability system should find a way to account for the millions of dollars going into school systems for non-instructional activities including, but not limited to, school health and social support services. While much of these dollars are not part of state and local education budgets, they represent the bulk of the funds used to meet the non-academic needs of students. Thus, they should be included in the calculations of the resources needed to meet the challenges posed by the increasing demands placed on schools.

Providing such information requires a good accounting and tracking system. Bruce Cooper and Coopers and Lybrand (1995) have worked in recent years to dissect school spending and tie costs to results, inspiring statewide efforts to make sense out of the billions of dollars allocated for public schools each year. However, a uniform/automated accounting and tracking system will only be as good as the protocols it is to follow.[3]

[3] For example, one function of protocols is to specifically spell out which expenses are to be placed in which accounting categories. Required use of standardized protocols would prevent one school from listing student desks under the "school facilities" category while another places them under "classroom materials."

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Education policymakers and administrators must ensure that the new protocols do not replicate the practices in the current system, and that these are implemented throughout the system.

Finally, State Boards of Education must ensure that whatever uniform accounting/tracking system is developed is linked to the state's strategic plan for financing student achievement. This will enable all stakeholders to see how the money is spent in terms of meeting the state's educational goals and objectives. In turn, states will be better equipped to help schools and districts increase their capacity to meet their own needs, goals, and objectives.

Recommendation #4 State Boards of Education must actively promote an agenda of Equity, Adequacy, and Accountability by assuming a leadership role in the education finance decision-making process.

State Boards of Education often labor in anonymity as they shape public education in their states. Though usually named in lawsuits, State Boards are often relegated to the sidelines in the development of solutions to the finance dilemma. Overall funding for education is often perceived as out of Boards' control, which is of particular concern to those Boards that do not have specific budget responsibilities. Yet the courts have frequently rejected proposed solutions developed by other bodies within the state that do have budget responsibilities. Furthermore, plans that have been acceptable to the courts, often fail to produce significant academic improvement in spite of changes in the funding formula. Finally, significant finance reform plans developed in legislatures have only rarely been coupled with standards-based educational reform to ensure that excellence in education is within reach of all students.

These facts suggest that a different leadership model must emerge in the debate, a model that can provide a new approach to eliminating both the revolving door of court cases and the lack of coordination between funding and performance. The missing voice in this debate is the State Board of Education. Indeed, the very nature of the system and the services performed by State Boards make them the logical body to aggressively assume a primary role in resolving the issue of school finance reform. Therefore, the NASBE Study Group recommends that education funding plans—tied to state education objectives and backed by an accountability system also linked to these objectives—be developed under the leadership of State Boards of Education. As the body entrusted with the responsibility of education policy, Boards are focused solely on education issues, have policy evaluation and oversight capabilities, and can ensure continuity while making change. State Boards engaged in stra-

tegic evaluation of the system are in the best practical position to align finance, standards, performance, results and objectives.

Although many researchers and education groups have written about the accountability of students, teachers and systems, there is a dearth of opinion on where the final responsibility for education governance rests. Governors have justified their involvement in education by citing their accountability and responsibility as the highest elected official within the state. Legislators note their responsibilities as elected policymakers in the state and cite the legislature's "power or the purse." Yet, State Boards are the only body with a sustained responsibility for education and education alone. Statutorily and constitutionally, State Boards of Education must ultimately accept responsibility for the results of the state system and they must include finance reform as a core component of their reform agendas.

> Having clarified the purpose of education in the state and developed a strategy for improving the system's capacity to meet its goals and objectives, the each State Board of Education must evaluate its policies to ensure that its positions and views reflect a commitment to equity, adequacy and excellence for all students. The legislative agenda of the Board and its accountability policies of recognition for achievement and assistance for deficiencies must reflect this commitment at every level. State Boards must provide the moral response to voices that attempt to accept less than excellence and adequacy in the name of equity.

Truly effective Boards cannot follow the lead of legislators who are compelled to represent the constituencies of their districts. They must represent the needs of all students, particularly those who are at the greatest risk of failure. Ensuring equity addresses questions of fair allocation of resources. Adequacy deals with sufficiency of resources to enable all students to meet high-level standards, and accountability speaks to the responsibility of each party involved in the process, from policymakers and administrators to teachers and students, to strive for excellence in education. State Board leadership must encompass all of these central concepts.

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CONCLUSION: A CALL FOR A NATIONAL DIALOGUE ON SCHOOL FINANCE

The Study Group has called for a new approach to thinking about and managing the funding of our public schools. At the state level, this strategy will go beyond the current practice of deciding what we want to spend for education and then dividing up the pie in politically acceptable ways. Rather, it will focus on several new elements:

1) Developing a statewide strategic plan for education and basing funding levels on what it will take to achieve the goals of that plan;

2) Targeting state funds in ways that research and best thinking say will most likely lead to achieving the goals. This will likely include increasing state department capacity to provide assistance; and

3) Helping schools and districts track and target their money to ensure they have the capacity to meet their individual needs and goals (and ensuring they have their own strategic plan and uniform accounting system in place that enables all concerned to see what the goals are and how the money is spent in terms of meeting those goals). This will likely increase state assistance and involvement with those districts that are not meeting goals.

This strategy calls for new roles for many of the groups and individuals concerned with education. As highlighted in the report's recommendations, linking funding with the specific goals of the system brings the State Board of Education directly into the funding discussion. At the same time, researchers and program evaluators looking into best practices and efficient use of funds must also be able to share their findings. State legislators will be asked to think broadly about the goals of the system, not just how tinkering with the formula will affect the schools in their district. Local school boards may be asked to develop strategic plans that identify their goals and their capacity in new ways. Local superintendents and principals are likely to be asked to account for their spending in new ways.

Given the novelty of this approach, its new roles for policymakers and administrators, and the fact that tying funding with education results is untried on a large scale, the Study Group calls for a new, ongoing national dialogue on education funding. Specifically, **the Study Group recommends that NASBE, in partnership with other education policy organizations (such as the National Governors' Association, Education Commission of the States, National Council of State Legislators, National School Boards**

Association, and Council of Chief State School Officers) develop a school finance initiative that will regularly convene its principal parties to:

- Discuss policy strategies that establish and strengthen the link between funding and high educational achievement/results;
- Meet with representatives from research institutions (such as the Finance Project and the Consortium for Policy Research in Education) to hear about the feasibility and implications of various strategies;
- Meet with representatives from parent groups, teacher organizations, citizen tax groups, and others concerned about financing education to understand their perspectives;
- Share experiences from state and local efforts to link funding with local capacity building and education results; and
- Develop a series of policy briefs to guide partnership members in advancing new finance strategies.

Funding our public schools adequately, efficiently, and with an eye toward continual improvements in student achievement has grown into a large and complex task that is too important to leave to back room discussions in state capitols. While specific finance plans in every state will and should be different, the Study Group believes that the most effective plans will be informed by the best thinking and insights of the broad range of groups and organizations indicated above.

APPENDIX A. RESEARCHERS' FINDINGS

How Much is Spent on Education?

The National Center for Education Statistics (NCES, 1997a) reports the following national estimates for school year 1996-97:

- Over $298 billion of revenues were raised by local, state, and federal governments to fund elementary and secondary public education.
- An average of $6,060 was spent on each student nationawide.
- School operating budgets are at their highest levels ever—as is enrollment in elementary and secondary schools.

NCES (1996b) has also reported that for the 1993-94 school year, local sources accounted for about 48 cents of every dollar in revenue; state revenues 45 cents; and the remaining 7 cents came from federal sources.

School finance consultant John Augenblick (1997) notes that state aid to schools represents the single largest item in almost every state's general fund budget, typically accounting for 25 to 40 percent of all state spending.

How Much Has the Cost of Education Grown?

How much education spending has grown is a matter of debate. Research by Hanushek (1995) indicates that education spending has doubled in real terms (that is, after allowing for inflation) during the last 25-30 years.

Rothstein and Miles (1995), closely examining school expenditure data from 1967 to 1991 in nine school districts, found that the increase in real spending was roughly 61 percent when appropriately adjusted for inflation.

A third study (Verstegen, 1993) demonstrated that education funding between 1980 and 1990 grew by 27 percent when adjusted for inflation.

According to NCES (1997c), public education revenues comprised 4.1 percent of the U.S. Gross Domestic Product (GDP) in 1993. This percentage was less than the levels in the early to mid-1970s, but higher than during the 1970s to mid-1980s.

How Equal is Spending on Education Within States?

Riddle and White (1997) report that in school year 1991-92, the range of spending in actual dollars by local education agencies (LEA's) between the 5th and the 95th percentiles differed by only $583 in Nebraska, the lowest differential, and by $7,657 in Alaska, the highest. But sophisticated statistical analysis of the data shows West Virginia with the most equalized spending across the state, and California with the greatest disparities.

The U.S. General Accounting Office (1997) reports that most states continue to have wide funding disparities between rich and poor school districts. Across all

states, high-income districts outspent low-income districts by an average of 24 percent per student in school year 1995-96.

The causes of funding disparities are many and complicated. However, researchers point to various interacting social and economic factors behind these disparities. Some of these factors include the relative wealth of individual households within a district; differences in taxable property value; increases in student enrollment; and changes in the unmet needs of students, among others.

Where Has the Money Gone?

This question, too, is a matter of great debate and interpretation of sketchy data. NCES (1997b) reports that for school year 1994-95:

- Instructional expenditures, which include teachers' salaries and benefits, supplies such as textbooks, and purchased services, accounted for about 62 cents out of the total education dollar.
- Another 34 cents went for support services, which include operation and maintenance of buildings, school administration, transportation, and other student and school support activities, e.g. student counseling, libraries, and health services.
- About 4 cents of the education dollar went to noninstructional activities, which include school meals and enterprise activities such as bookstores.

Hanushek (1996) concludes that the rapid rise in education spending was the result of dramatically smaller pupil-teacher ratios, growing numbers of more experienced teachers with master's degrees, and higher real salaries of teachers. Comparing the rise in spending with student test score results, he asserts there has been a "productivity collapse" in education.

Rothstein and Miles (1995) examined school expenditure data from 1967 to 1991 by program function in nine school districts. They concluded that per-pupil expenditures for general education students increased by only 28 percent, while programs for special populations (*e.g.*, special, compensatory and bilingual education) accounted for the largest share of the increase at 38 percent. Expansion of the school lunch program (8 percent), programs for students at-risk (8 percent), and instructional programs for special populations (7 percent) also accounted for a substantial share of the new funds.

Augenblick (1997), reflecting on his experience as a consultant to states on school finance and research data, concludes that the leading reason for rising school costs in real terms is the dramatic increase in the number of students enrolled in special education programs, followed by the growing proportion of students from low-income families, and an increase in the number (rather than the salaries) of teachers.

NCES (1997b) reports that between the 1989-90 and 1993-94 school years, the percentage of total expenditures public schools spent on support services decreased, expenditures on instruction remained relatively constant, while the percentage spent on capital outlay increased.

Verstegen (1993) examined education spending within the context of education reform efforts taking place across the nation. Verstegen found that 44 percent of the new funds in 1990, what she calls "reform dollars," went to teacher-related initiatives such as salaries and benefits, professional development opportunities, and other incentives. Changes in class sizes, the school day, and the school year comprised the second largest category, absorbing 20 percent of new education funds. These categories were followed by programs for students at-risk of dropping out (14 percent); early childhood programs (10 percent); school restructuring/organizing efforts (6 percent); and other reform initiatives such as changes in curriculum, standards and assessments.

Does Money Matter?

The frequently cited Coleman report (1966) concluded that resources make little difference in achievement once student background characteristics are taken into account. Since then, educational researchers have undertaken many studies to resolve this question.

Most widely known is Hanushek's (1989) analysis of findings from the 38 existing studies conducted between 1967 and 1987 that examine the relationship between resource use and student performance. Focusing on the influence of class size, overall school spending, and teacher factors (salaries, education and experience), he found that in most cases those resources had no effect; and that only 20 percent of these relationships showed a significant positive effect for per-pupil expenditures. He concluded, "there is no strong or systematic relationship between school expenditures and student performance."

Yet, Card and Krueger (1996), examining the relationship between school resources and adult earnings, found that resource-rich schools produce graduates who earn more than graduates from schools where spending is lower.

Hedges and Greenwald (1996) applied a different analytical technique to the data from the same studies Hanushek used and came to the opposite conclusion —that higher school spending *had* produced higher student achievement. Specifically, they found strong ties between student achievement and both per-pupil funding levels and teacher experience, while other resource factors such as class size, teacher education, teacher salary, administrative staffing, and facilities showed less connection to achievement.

Murnane and Levy (1996) studied 16 elementary schools that received $300,000 per year over and above normal school spending for 5 years to help resolve a desegregation court case inAustin, Texas. They found that the extra dollars resulted in improved student performance in only two schools. These had specifically adopted the clear goal of raising student achievement and found ways to engage teachers, parents and students by structuring incentives, providing high quality training, and developing good measures of progress. In the other 14 schools, more money made no difference because it was not used to change the way the schools went about their daily business.

What does the Research Suggest to Policymakers?

Research suggests that investments in particular programs can enhance student achievement. Mosteller (1995) found that Tennessee's program beginning in the mid-1980s to increase funding for smaller class sizes resulted in substantial improvement in early learning and above average overall student achievement levels, both initially and over the long term.

Wenglinsky (1997) conducted a sophisticated analysis of several recent national data sets and found that increased expenditures on instruction and school district administration resulted in smaller teacher-student ratios, which in turn raised average achievement in mathematics in grades 4 and 8 as measured by the National Assessment of Educational Progress (NAEP).

Odden (1996) observed that several whole-school change efforts are associated with improved student performance when they are implemented well. Research indicates that substantial achievement effects can be produced within one year in programs like Robert Slavin's *Success for All* program and James P. Comer's *School Development Program*.

Slavin (1997) asserted that many schools have the dollars to finance such strategies and programs by simply reallocating current dollars. For example, by reallocating current staffing for tutors and outreach specialists, many schoolwide Title I schools could finance *Success for All*.

Similarly, Miles (1995) showed that Boston could cut its 30 to 1 pupil-teacher ratio in half by staffing schools and running programs differently with no additional financial resources.

Do We Know Enough?

There remains a glaring lack of adequate evaluation data to fully answer the question about how best to invest education dollars. Slavin (1997) highlights the need for a great deal more independent evidence on replicable programs. He calls for a substantial long-term federal investment to carry out rigorous evaluations of existing promising programs.

Reviewing various state education reforms and school improvement plans, one is struck by the scarcity of solid evidence regarding how these efforts are improving student performance and which are most cost effective. The lack of evidence can be attributed in part to the fact that many of these reforms have not been in existence long enough to measure their success, but also to the fact that policymakers have not made evaluation a priority when they fund new programs.

APPENDIX B. PRESENTERS TO THE STUDY GROUP

June 1996, Chicago

How Schools are Funded in the U.S. *John Augenblick, Augenblick & Myers*
The Michigan Experience: Lessons Learned *Robert Schiller, Former Michigan Superintendent of Public Instruction*
The Illinois Experience: Lessons Learned *Richard Laine, Associate Superintendent, Illinois State Board of Education*
Visions for Funding Schools in the Next Century: Ties to Educational Reform *Mary Fulton, Education Commission of the States*

October 1996, San Francisco, California

A Finance Analysis Model for Education *Bruce S. Cooper, Coopers & Lybrand*
Where's the Money Gone? (Part I): *Richard Rothstein, Economic Policy Institute*

January 1997, Washington, D.C.

Where's the Money Gone? (Part II): Financing Comprehensive Services for Children — Cheryl Hayes, The Finance Project
Does Money Matter? (Part I): The Relationship Between School Expenditures and Adult Success — *Gary Burtless, The Brookings Institution*
Does Money Matter? (Part II): The Relationship Between School Expenditures and Student Achievement *Eric A. Hanushek, University of Rochester*

March 1997, Alexandria, Virginia

Teacher Compensation Issues — *Carolyn Kelley, Consortium for Policy Research in Education, University of Wisconsin-Madison*
Accountability Issues: The Kentucky Experience — *Penney Sanders, Office of Education Accountability, Kentucky General Assembly*
An Overview of State Accountability Issues — *Charles H. Abelmann, Consortium for Policy Research in Education, Harvard University*
A Productivity Focus for American Education — *Sue Berryman, The World Bank*

June 1997, Kansas City, Missouri

Linking Education Funding with Other Education Reforms — *Larry Picus, Center for Research on Education Finance, University of Southern California*

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